



Bond Insurance Policy – Contract Bonds and Guarantees

In many parts of the world it is common practice for buyers to insist that exporters provide bonds or guarantees from first class banks as security, as a means of ensuring that the exporters honour their side of the contracts.

Since most export-related project bonds are unconditional and on demand, they pose a risk for UK exporters, regardless of their ability to perform the underlying contracts. ECGD can help protect you as an exporter against these risks through our Bond Insurance Policy (BIP).

Types of Bond that can be covered

Bonds or guarantees can take many forms. ECGD can consider cover for all bonds that you are required to provide in connection with an export contract, except tender bonds.

Advance Payment Guarantees

These are used to protect the buyer against the loss of money paid in advance. They are particularly common where there is a significant design and manufacturing phase before the delivery of any equipment or goods to the buyer. The key risk for exporters with these bonds is that political events may frustrate a contract after the advance payment has been received, but before goods have been delivered or the contract completed.

Performance Bonds

This is the principal type of bond issued in connection with construction contracts, and is intended to assure the buyer that the contractual works will be completed to the required standard and/or by a specified date. They are vulnerable to calls and thus to losses arising when external circumstances such as war or other political difficulties prevent the contractor from completing the project.

On Demand Bonds

Most bonds provide for payment "on demand", with payment being unconditional. The issuing bank will therefore pay when a demand for payment is received. ECGD cover has been designed for "on demand" bonds of fixed values, but ECGD can consider variations to meet other types of bonds, including conditional bonds and bonds with reducing values.

Counter-Guarantees and Counter-Indemnities

In practice, the bond or guarantee is often represented not by a single contract, but by a series of inter-linking obligations. Typically, the bond is given to the overseas buyer by a bank in his own country.

The local bank in turn is the beneficiary of a counter-guarantee issued by a bank in the UK at the request of the exporter. The UK bank will take security in the form of a counter-indemnity given by the exporter in the UK.

ECGD does not take responsibility for the wording of bond documents submitted for insurance, but it does require information about their terms to be given in the BIP Proposal Form.

What ECGD cover provides

The BIP protects you the exporter against a call either under the bond or any related counter-guarantee. The terms of your policy will reflect the specific arrangements in place for your bond.

Risks Insured

The BIP provides insurance against 'unfair' calls, and for calls made as a result of specified political events.

Unfair Calls

A claim may arise where the buyer or local bank makes a call under the bond even though there has been no failure to perform the conditions of the contract or comply with any relevant laws or authorisations.

Political Events

A claim may also arise where a call has been made under the bond or counter-guarantee, which may be attributed to certain political factors.

These may occur even where the actual call may be deemed to be "fair" because the contract has not been performed, provided that any failure to perform is attributable to specified political causes.

Typical events which may give rise to an insured call may be:-

- Government actions, including cancellation or non renewal of export licences;
 - War, hostilities, civil disturbances, and similar events outside the UK;
- and in both cases where such actions prevent performance of the contract.



Basic Cover

The BIP is only available as a supplement to basic ECGD cover for the underlying contract. The BIP is issued as a separate policy and may therefore become effective before ECGD's basic guarantee has been issued.

Premium

Premium for insurance cover under the BIP is charged and payable separately from the related basic guarantees. The amount payable will be based on the value and duration of the relevant bonds, and on ECGD's perception of the risks insured.

Confidentiality

The existence of ECGD insurance cover in respect of any bond should remain confidential between you the exporter, the insured, and ECGD.

Applying for cover

If you have a specific contract in mind for which you require bond cover, you should contact the relevant underwriter. The underwriter will advise you as to whether or not cover can be considered, and of any specific conditions to be met. If cover can be considered, ECGD will invite you to complete a BIP Proposal Form giving full details of your cover requirements.

Next steps

If you have any further questions, please call our Helpline on: (+44) (0) 20 7512 7887.